

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:CORP:B06

PLR-127754-06

Date:

October 06, 2006

Legend

Distributing =

Controlled =

Sub 1 =

Sub 2 =

Sub 3 =

Shareholder A =

Shareholder B =

Shareholder C =

Shareholder D =

Shareholder E =

Shareholder F =

Shareholder G =

Shareholder H =

Shareholder I =

Shareholder J =

Shareholder K =

Shareholder L =

#X =

#Y =

N% =

O% =

P% =

Q% =

R% =

S% =

T% =

Business BB =

Business CC =

Business DD =

Dear _____ :

This ruling is in reply to your representative's letter dated May 17, 2006 for rulings concerning the Federal income tax consequences of a completed transaction. Additional information was submitted in letters dated September 1, 2006, September 22, 2006, September 27, 2006 and September 28, 2006. The material information, submitted for consideration, is substantially as set forth below.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations and other data may be required as part of the audit process.

Moreover, no information provided by the taxpayer has been reviewed and no determination has been made regarding whether the proposed transaction: (i) satisfies the business purpose requirement of section 1.355-2(b) of the Income Tax Regulations, (ii) is used principally as a device for the distribution of the earnings and profits of the distributing corporation, the controlled corporation or both (see section 355(a)(1)(B) of the Internal Revenue Code and Treas. Reg. section 1.355-2(d)), or (iii) is part of a plan (or series of related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or the controlled corporation (see section 355(e)(2)(A)(ii) and Treas. Reg. section 1.355-7).

Summary of Facts

Distributing is the common parent of a consolidated return group that includes Sub 1, Sub 2, Sub 3 and Controlled. Distributing has #X shares of issued and outstanding stock. Distributing's stock is owned by twelve shareholders, as follows: Shareholder A owns N% of Distributing stock; Shareholder B, Shareholder C and Shareholder D each own O% of Distributing stock; Shareholder E, Shareholder F, Shareholder G and Shareholder H each own P% of Distributing stock; Shareholder I owns Q% of Distributing stock; Shareholder J owns R% of Distributing stock; Shareholder K owns S% of Distributing stock; Shareholder L owns T% of Distributing stock (The Distributing shares owned by Shareholders A-L are hereinafter referred to as the "Shareholders"). Distributing is engaged in Business BB and owns all of the stock of Sub 1, Sub 2, Sub 3.

Controlled has #Y shares of issued and outstanding common stock all of which is owned by Distributing. Sub 1 is engaged in Business CC. Sub 2 is engaged in Business DD, Sub 3 is a dormant shell corporation. Controlled is engaged in the business of leasing executive suites to tenants, and such activities include providing

tenants with receptionist services, switchboard answering services, message taking services, mail services and other secretarial services.

We have received financial information indicating that Distributing, Sub 1, Sub 2, and Controlled have gross receipts and operating expenses representative of the active conduct of a trade or business for each of the past five years.

Proposed Transaction

For what has been represented as a valid business purpose, the following transaction has been proposed:

Distributing will distribute to the Shareholders on a pro rata basis all of the Controlled stock (hereinafter sometimes referred to as the "Distribution").

Representations

The taxpayer has made the following representations in connection with the Distribution:

- a) The indebtedness owed by Controlled to Distributing after the Distribution will not constitute stock or securities.
- b) No part of the consideration to be distributed by Distributing will be received by a shareholder as a creditor, employee, or in any capacity other than that of a shareholder of the corporation.
- c) The five years of financial information submitted on behalf of Distributing is representative of the corporation's present operation, and with regard to such corporation, there have been no substantial operational changes since the date of the last financial statements, submitted.
- d) The five years of financial information submitted on behalf of Sub 1 is representative of the corporation's present operation, and with regard to such corporation, there have been no substantial operational changes since the date of the last financial statements, submitted.
- e) The five years of financial information submitted on behalf of Sub 2 is representative of the corporation's present operation, and with regard to such corporation, there have been no substantial operational changes since the date of the last financial statements, submitted.
- f) The five years of financial information submitted on behalf of Controlled is representative of the corporation's present operation, and with regard to such

corporation, there have been no substantial operational changes since the date of the last financial statements, submitted.

- g) Immediately after the Distribution, at least 90% of the fair market value of the gross assets of Distributing will consist of the stock and securities of controlled corporations that are engaged in the active conduct of a trade or business as defined in section 355(b)(2).
- h) Following the transaction, Distributing and Controlled will each continue the active conduct of its business independently and with its separate employees.
- i) The distribution of the stock, or stock and securities of Controlled is carried out for the following corporate business purposes: (a) to allow Controlled and the other subsidiaries of Distributing to better focus on their core business operations, (b) to posture Controlled and Distributing to attract potential investors, and (c) to allow for more efficient transaction structuring in Controlled. The distribution of the stock, or stock and securities, of Controlled is motivated, in whole or substantial part, by one or more of these corporate business purposes.
- j) The transaction is not used principally as a device for the distribution of the earnings and profits of Distributing or Controlled or both.
- k) For purposes of section 355(d), immediately after the Distribution, no person (determined after applying section 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Distributing stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Distributing stock, that was acquired by purchase (as defined in sections 355(d)(5) and (8)) during the five-year period (determined after applying section 355(d)(6)) ending on the date of the Distribution.
- l) For purposes of section 355(d), immediately after the Distribution, no person (determined after applying section 355(d)(7)) will hold stock possessing 50 percent or more of the total combined voting power of all classes of Controlled stock entitled to vote, or 50 percent or more of the total value of shares of all classes of Controlled stock, that was either (i) acquired by purchase (as defined in sections 355(d)(5) and (8)) during the five-year period (determined after applying section 355(d)(6)) ending on the date of the Distribution or (ii) attributable to distributions on Distributing stock that was acquired by purchase (as defined in sections 355(d)(5) and (8)) during the five-year period (determined after applying section 355(d)(6)) ending on the date of the Distribution.
- m) Distributing, Controlled, and the Distributing shareholders will each pay their own expenses, if any, incurred in connection with the proposed transaction.

- n) Distributing neither accumulated its receivables nor made extraordinary payment of its payables in anticipation of the transaction.
- o) Immediately before the Distribution, items of income, gain, loss, deduction, and credit will be taken into account as required by the applicable intercompany transaction regulations (see Treas. Reg. Section 1.1502-13 and see Treas. Reg. Section 1.1502-14 as in effect before the publication of T.D. 8597, 1995-32 I.R.B. 6, and as currently in effect; Treas. Reg. Section 1.1502-13 as published by T.D. 8597). Further, Distributing's excess loss account with respect to Controlled stock, if any, will be included in income immediately before the distribution (See Treas. Reg. Section 1.1502-19).
- p) Payments made in connection with all continuing transactions, if any, between Distributing and Controlled will be for fair market value based on terms and conditions arrived at by the parties bargaining at arm's length.
- q) Other than a pre-existing note payable from Controlled to Distributing which does not constitute securities, no intercorporate debt will exist between Distributing and Controlled at the time of, or subsequent to, the distribution of the Controlled stock, except that Distributing may owe Controlled, or Controlled may owe Distributing, amounts payable for goods and services in the ordinary course of business.
- r) No two parties to the transaction are investment companies as defined in section 368(a)(2)(F)(iii) and (iv).
- s) The Distribution is not part of a plan or series of related transactions (within the meaning of Treas. Reg. Section 1.355-7) pursuant to which one or more persons will acquire directly or indirectly stock representing 50-percent or greater interest (within the meaning of section 355(d)(4) in Distributing or Controlled (including any predecessor or successor of any such corporation).

Rulings

Based solely on the information submitted, and on the representations set forth above, this Office rules as follows:

- 1) Distributing will recognize no gain or loss upon the Distribution (section 355(c)).
- 2) The Shareholders will recognize no gain or loss and no amount will be included in their income upon the receipt of the Controlled stock (section 355(a)(1)).
- 3) The aggregate basis of the Distributing stock and the Controlled stock in the hands of the Shareholders immediately after the Distribution will equal the

aggregate basis of the Distributing stock held by the Shareholders immediately before the Distribution, allocated between the stock of Distributing and Controlled in proportion to the fair market value of each in accordance with Treas. Reg. Section 1.358-2(a)(2) (sections 358(b)(2) and 358(c)).

- 4) The holding period of the Controlled stock received by the Shareholders will include the holding period of the Distributing stock on which the Distribution will be made, provided the Shareholders hold the Distributing stock as a capital asset on the date of the Distribution (section 1223(1)).
- 5) Earnings and profits will be allocated between Distributing and Controlled in accordance with Treas. Reg. Sections 1.312-10(b) and 1.1502-33.

Caveats

No opinion is expressed about the tax treatment of the transaction under other provisions of the Code or regulations or the tax treatment of any conditions existing at the time of, or effects resulting from, the transaction that are not specifically covered by the above rulings. In particular, no opinion is expressed regarding: (i) whether the Distribution satisfies the business purpose requirement of Treas. Reg. section 1.355-2(b); (ii) whether the transaction is used principally as a device for the distribution of the earnings and profits of either Distributing or Controlled or both (see section 355(a)(1)(B) and Treas. Reg. section 1.355-2(d)); and (iii) whether the Distribution and an acquisition or acquisitions are part of a plan (or series of related transactions) under section 355(e)(2)(A)(ii).

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,
Steven J. Hankin Senior Technician Reviewer,
Branch 6
Office of Associate Chief Counsel (Corporate)

cc: